

Federated Department Stores, Inc.



1973 Annual Report



Annual Report for 52-week fiscal year
ended February 2, 1974

Federated Department Stores, Inc.

Financial Highlights

1973 net sales \$2.962 billion	Up 11.1%
1973 income after taxes \$114 million	Up 4.8%
1973 earnings per share \$2.57	Up 11 cents
1973 dividends per share \$1.08	1972 dividends per share \$1.04

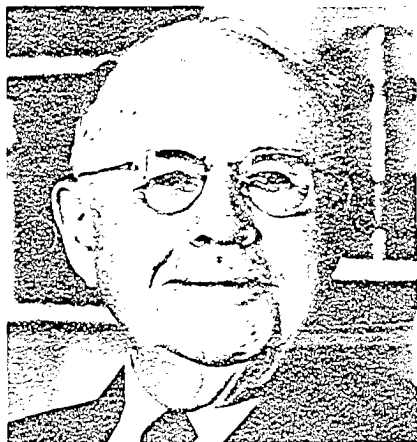
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**Resolution by the Board of Directors
of Federated Department Stores, Inc.,
June 26, 1973:**

Our friend, Fred Lazarus, Jr., is gone and we shall miss him. A remarkable, visionary man, he knew when to dream, when to plan, when to lead and when to concentrate on the problems and the hopes of individual human beings. His sense of what was right, what should be done, and when, was most precise and perceptive. He was a member of the charter group that had the vision to form Federated Department Stores and then, over the years, he demonstrated the innovative leadership that brought the company to what it is today. Of course, what he did to build this business is known to the world and certainly to us. In the finest sense of the word he was a great businessman. But, in addition, Fred Lazarus had a strong belief in the obligations of citizen participation at all levels of government and encouraged all of his associates to do the same. He leaves an empty space in all our lives, filled partially only by our memory of his strength, his vigor and his humor.

Fred Lazarus, Jr. 1884-1973





Following are excerpts from the eulogy delivered by Rabbi Alfred Gottschalk at the memorial service for Fred Lazarus, Jr., May 29, 1973:

"... it would be a gross understatement to say that Fred Lazarus, Jr. was a remarkable man. He was known throughout the world as the number one Retailer, and often in a caption such as that, the man behind that caption is categorized and lost. The words retail and wholesale are commercial terms. And while Fred Lazarus was a man who was, all of his life, involved in commerce and industry; there was underneath—a pulsating, remarkable, visionary human being...

● Fred Lazarus, Jr. was not a quitter! He was a man of fierce determination with an iron will, who chose to live and to build and to continue to create within that rich genius which made him one of the outstanding men of our time...

"... He was by temperament a maverick and a syncretist. Anything that was formal or that others had established as formal he tended to reject as a matter of principle; he had to be convinced that something was rational, that something that was anticipated and planned was properly thought out and also, that it was just and fair to human beings...

"... Fred Lazarus was unconventional, original, and imaginative in putting things together in his own very unique

way. He did live a religion. And in a remarkable, ethical letter that he left to his family on the occasion of his 88th birthday, he imparted some of his life's philosophy to his family. He talked about the early days of Federated and the store. He spoke of Uncle Ralph and Father, who, with great care, looked after the services afforded every customer coming into the store. And the Lazarus name was recognized for its honesty and the family guaranteed that merchandise sold would deliver satisfaction. 'We boys grew up under that policy and it has been a very important part of our mercantile life.'...

"... An institution is but the lengthened shadow of a man. The business that Fred Lazarus created was controlled and is controlled by a framework of standards and a fine sense of gratification. He made people feel he expected things from them. And when a certain manager was asked why his monthly receipts were so bad, he explained it was the weather. Fred Lazarus, Jr. had a remarkable sense of humor, and to that gentleman he replied as follows: 'Blame less on God and more on yourself—then there is a possibility that you might improve.'...

"... He once remarked: 'At the age of retirement—that is when I began things.' That is when he devoted himself to the innercity programs—to the struggle for human rights, the battle for the right of minorities; that innate sense of justice, that was developed in him, within the family, and within his tradition, came forward.

"His favorite Biblical quote was, I quote Micah, 'What is it that the Lord requires of you? Is it not to do justly, to have mercy, and to walk humbly with thy God?'

"That rhetorical question remained for answering each day of his life... And while he had to leave college because his father and his uncle became ill and he had to take over the business

as a young man; he read voraciously, educating himself in the great biographies and histories that men have written. He helped others by quietly contributing scholarship assistance, so that they might have the education which was denied him.

"He believed in the nation, believed in the mission of America. He revelled in its individualism. He was in every respect an exponent of democracy. He believed in the capitalist system because he felt that it was the best—with all its faults—that mankind has been able to devise to respond to the needs of human beings. This robust, zestful man loved being and doing. He loved to work and to accomplish."

Letter to Shareholders

Dear Fellow Shareholders: In 1973, Federated Department Stores continued its record of progress and achievement. Sales and earnings were the highest in history and year-end inventories were well controlled. All of our divisions continued to concentrate on overall operating disciplines to cope with rising inflation.

Sales and Earnings Results. Earnings per share for the 52 weeks ended February 2, 1974 were \$2.57, compared to \$2.46 per share for the 53 weeks ended February 3, 1973. Inflation in the cost of goods sold reduced earnings by \$.19 per share in 1973, compared with \$.03 per share in 1972. These amounts were calculated from the increase in the appropriate Bureau of Labor Statistics index used in determining the value of our year-end LIFO inventory.

The LIFO (last-in, first-out) method, used by Federated and some other retailers, has the effect of eliminating inflationary effects from earnings and from inventory value. Thus, profits and balance sheet inventory values are stated on a conservative basis, both for financial and tax reporting purposes.

Federated's net income was \$113,731,648, compared with \$108,573,045 in the previous year, for an increase of 4.8%. Sales were \$2,962,050,636, compared to 1972's \$2,665,147,985, for an increase of 11.1%. On a comparable 52-week basis, sales increased 12.7% in 1973.

Fourth quarter earnings, before deducting the effect of inflation in the cost of goods sold, were \$1.27 per share in 1973 (a 13-week period) compared to \$1.19 in 1972 (a 14-week period). After deducting the effect of inflation, fourth quarter earnings were \$1.15 per share in 1973 compared to \$1.18 in 1972.

The economy started out strong in 1973. As the year progressed, rising inflation, shortages partly caused by price

Annual Meeting: All Federated shareholders are invited to attend our 1974 annual meeting. It will be held at 2 p.m. on Tuesday, May 28, at Federated's headquarters, 222 West Seventh Street, Cincinnati, Ohio.

controls, and the sudden impact of the energy crisis increased customer uncertainty. This began to be felt at mid-year and intensified after the announcement of the energy crisis. Consumer caution eased during the Christmas season and the improved flow of sales continued through January.

Department and specialty stores accounted for 78.5% of total 1973 sales volume, compared with 80.9% last year. Profit contribution of department and specialty stores (before federal, state and local income taxes, central office costs and interest expense) was 10.5% of their sales compared with 10.8% in 1972.

Our mass merchandising divisions produced 21.5% of total 1973 sales compared with 19.1% last year, and their profit contribution was 2.5% of their sales compared with 3.0% in 1972. It should be noted that Ralphps, our super-market division, absorbed the costly effects of the price freeze on beef, a 35 day strike, and an unprecedented effect of inflation on the cost of goods sold. These factors combined to produce a substantial adverse impact on Ralphps' contribution to profits. For the first time in its history, in 1973 Ralphps was ranked number one in consumer preference by the Los Angeles Times continuing home audit.

Shortly after the close of the fiscal year, the indicated annual dividend rate was increased from \$1.08 to \$1.16. The quarterly dividend rate, effective with the April 26, 1974 payment, will be \$.29 per common share.

We expect the year 1974 to be difficult for all retailers. Business in the first part of 1974 should be relatively slow. We anticipate a slight improvement in the third and fourth quarters. Our organization is determined to perform in a superior manner under these adverse economic circumstances for our customers and shareholders.



Ralph Lazarus, Chairman of the Board



Harold Krensky, President

Expansion. Federated added a record 2,921,000 square feet of new retail space in 1973. The majority of this was in department and specialty stores. In 1974, we plan to add a total of 1,819,000 square feet, including 18 new stores. The following table lists major store openings in 1973.

Department and Specialty Store Openings

Abraham & Straus, Rego Park, Queens, New York, 306,000 sq. ft.
 Bloomingdale's, Chestnut Hill, Massachusetts, 85,000 sq. ft.
 (Home Furnishings Specialty Store)
 Bullock's South Coast Plaza, Costa Mesa, California, 186,000 sq. ft.
 Bullock's Wilshire, Woodland Hills, California, 84,000 sq. ft.
 Bullock's Northern California, Walnut Creek, California, 188,000 sq. ft.
 Burdine's, Orlando, Florida, 206,000 sq. ft.
 Lazarus, Indianapolis, Indiana, 312,000 sq. ft.
 Lazarus Capri Store, Columbus, Ohio, 34,000 sq. ft.
 Sanger-Harris, Valley View, Dallas, Texas, 200,000 sq. ft.

Mass Merchandising Store Openings

Gold Circle:
 East, Cincinnati, Ohio, 130,000 sq. ft.
 North, Cincinnati, Ohio, 130,000 sq. ft.
 West, Cincinnati, Ohio, 133,000 sq. ft.
 North Olmstead, Cleveland, Ohio, 103,000 sq. ft.
 Mentor, Ohio, 104,000 sq. ft.
 Springfield, Ohio, 135,000 sq. ft.
 Gold Triangle:
 Orlando, Florida, 86,000 sq. ft.
 Tampa, Florida, 86,000 sq. ft.
 Gold Key:
 Van Nuys, California, 159,000 sq. ft.
 Ralphs:
 Hillsdale, San Jose, California, 35,000 sq. ft.
 Golden West & Warner, Los Angeles, California, 35,000 sq. ft.



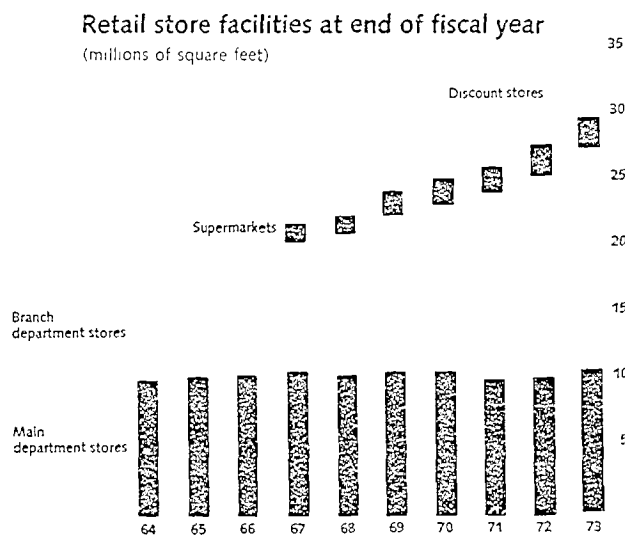
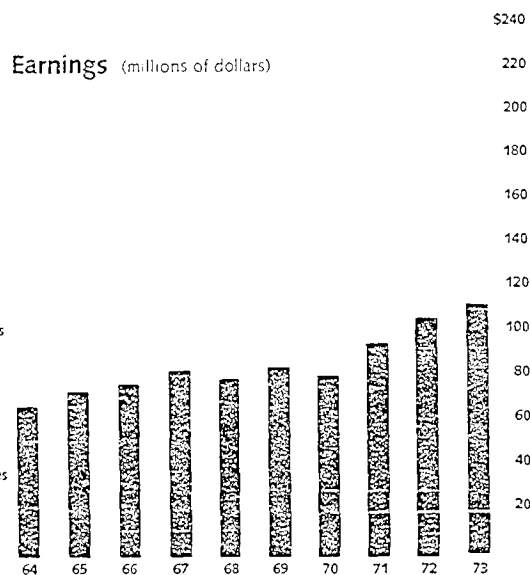
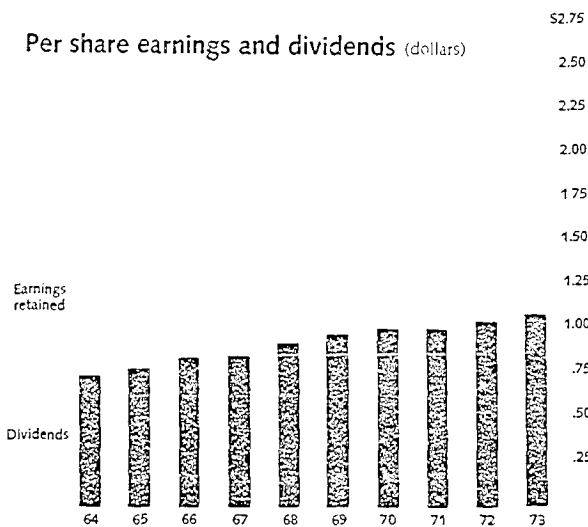
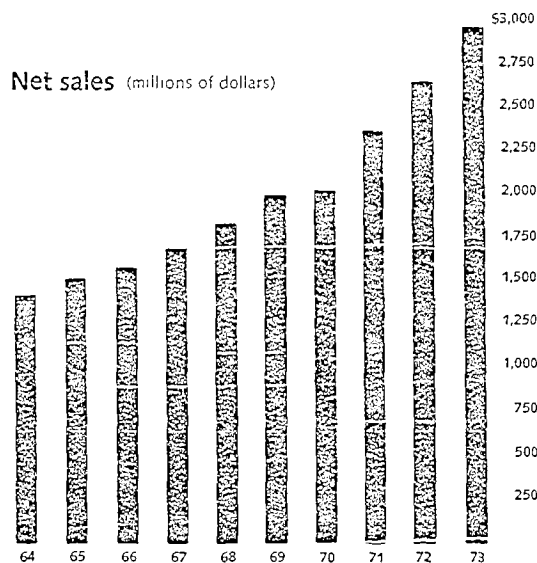
Dillon Anderson 1906-1974

We, members of the Board of Directors of Federated Department Stores, Inc., want to express our deep sense of loss at the death of our well-loved friend and long time associate, Dillon Anderson, in Houston on January 28, 1974.

Einstein said, "Man is here for the sake of men." And Dillon Anderson, throughout his 67 years, modeled this thought. This board, and in fact, this entire nation, will long benefit from his efforts as an attorney, statesman, businessman and author.

The nation will remember his efforts as consultant to the National Security Council, as special assistant to President Eisenhower for National Security Affairs and for his role as a member of the U.S. delegation to The Big Four Summit Conference in Geneva in 1955. Many will remember him for his efforts as an attorney and senior partner of the law firm of Baker & Botts. Still others will find endless enjoyment in his three novels of folktales of the Southwest.

We, his business associates of more than 17 years, will maintain fond memories. We have had the honor and pleasure to know Dillon Anderson, the man: his business acumen, his warmth, his compassion, his wit and his sincerity. Dillon Anderson . . . a man who existed for the sake of men. We shall deeply miss him.



Two members of the board of directors will complete their service, effective May 27, 1974. They are David L. Rike, who has served on the board for 15 years, and Sidney L. Solomon, who has been a board member for 19 years.



David L. Rike is a third generation retailer. He began his retailing career in 1929, and has gained not only renown as an expert merchant and businessman but also as an outstanding citizen and philanthropist. He was selected as "Retailer of the Year" and received the Tobe Award in 1954.



Sidney L. Solomon is recognized as the retailer responsible for the building of A&S into what it is today. He began his career at A&S in 1934. In 1965, he was awarded both the National Retail Merchants Association's Gold Medal and the Tobe Award for distinguished contributions to retailing.

Federated added three new members to the board of directors. They are Peter G. Peterson, Lucy Wilson Benson and Lawrence Lachman.



Peter G. Peterson is chairman of the board of the investment firm of Lehman Brothers, Inc. He was Secretary of Commerce in 1972.



Lucy Wilson Benson is president of the League of Women Voters of the U.S. She has a distinguished record of civic leadership.



Lawrence Lachman is chairman of Bloomingdale's. Mr. Lachman, a noted retailer, has been with Bloomingdale's for 27 years.

Organization. In 1973, Federated made a number of major improvements in its Retirement Income and Thrift Incentive Plan, which is the Company's major profit sharing retirement plan. New employees will become eligible to enter the plan after one year of regular employment and having reached their 25th birthday. Their profit sharing account becomes fully vested after 15 years of regular employment, with partial vesting beginning after 5 years of such employment. The increased costs relating to such improvements are being met by the Company.

We deeply mourn the death of Fred Lazarus, Jr., who died May 27, 1973. He was a charter founder and guiding leader who brought Federated to its present position of national prominence. Thanks to his foresight and dedication, Federated has a legacy and sense of purpose that is unique among retailers.

Dillon Anderson, a member of the board for 17 years, died in 1974. His dedication and guidance contributed greatly to the Company's progress. We will miss Mr. Anderson's wise counsel.

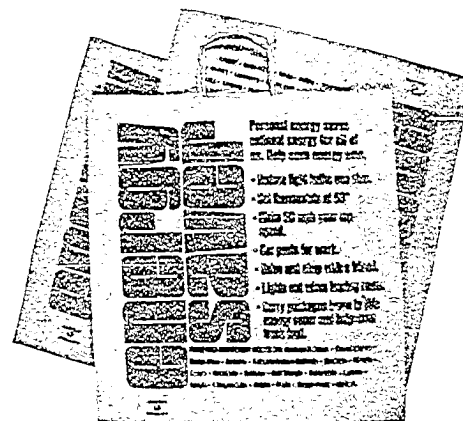
Two members of the board will complete their service effective May 28, 1974. They are David L. Rike and Sidney L. Solomon. Mr. Rike has served on the board for 15 years. Mr. Solomon has been a board member for 19 years. We will be forever grateful for the contributions they made to further Federated's success. Each has contributed almost half a century of effort toward the advancement of the retailing industry.

Since our last Annual Meeting, Federated added three new members to the board of directors. They are: Peter G. Peterson, Chairman of Lehman Brothers, Inc., and former Secretary of Commerce; Ms. Lucy Wilson Benson, President of the League of Women Voters of the United States; and Lawrence Lachman, Chairman of Bloomingdale's.

We could not have accomplished what we did in 1973 without the dedication to excellence that is the trademark of our Federated associates and our suppliers. We want to thank them for their valued contributions. We also wish to express appreciation to our customers, shareholders, directors and officers for their continued support through the year.

Respectfully submitted,
Ralph Lazarus, Chairman of the Board
Harold Krensky, President

By order of the Board of Directors,
 April, 1974



This special energy-saving shopping bag was provided free to shoppers in Federated stores during Christmas as a reminder that energy conservation should be everyone's concern.

Ten-Year Summary

1973

Operations (dollars in thousands)

Net sales	\$2,962,051
Income before income taxes	224,732
Percent of sales	7.6%
Federal, state and local income taxes	111,000
Net income	113,732
Percent of sales	3.8%
Dividends paid	47,786
Earnings retained	65,946
Capital expenditures	164,945
Depreciation and amortization	46,929
Taxes other than income taxes	61,781

Per Share of Common Stock⁽²⁾

Net income ⁽³⁾	\$ 2.57
Dividends	1.08
Shareholders' equity (book value) ⁽⁴⁾	20.11

Year-End Financial Position (dollars in thousands)

Accounts receivable ⁽⁵⁾	\$ 519,000
Inventories	336,815
Cumulative effect of inflation on inventories ⁽⁶⁾	66,693
Working capital	377,602
Property and equipment—net	671,608
Long-term debt	116,505
Shareholders' equity	889,352
Return on shareholders' equity ⁽⁷⁾	13.3%

Statistics

Number of department stores at end of year	126
Number of square feet of department store space (in thousands)	27,384
Average number of shares outstanding (in thousands) ⁽²⁾	44,249

Notes:

(1) The acquisition of Ralphs in 1967 and Bullock's-Magnin in 1964 were accounted for as poolings of interests. Figures for prior years have been restated.

(2) Adjusted to reflect 2-for-1 split in 1968.

(3) Based on average number of shares outstanding during the year.

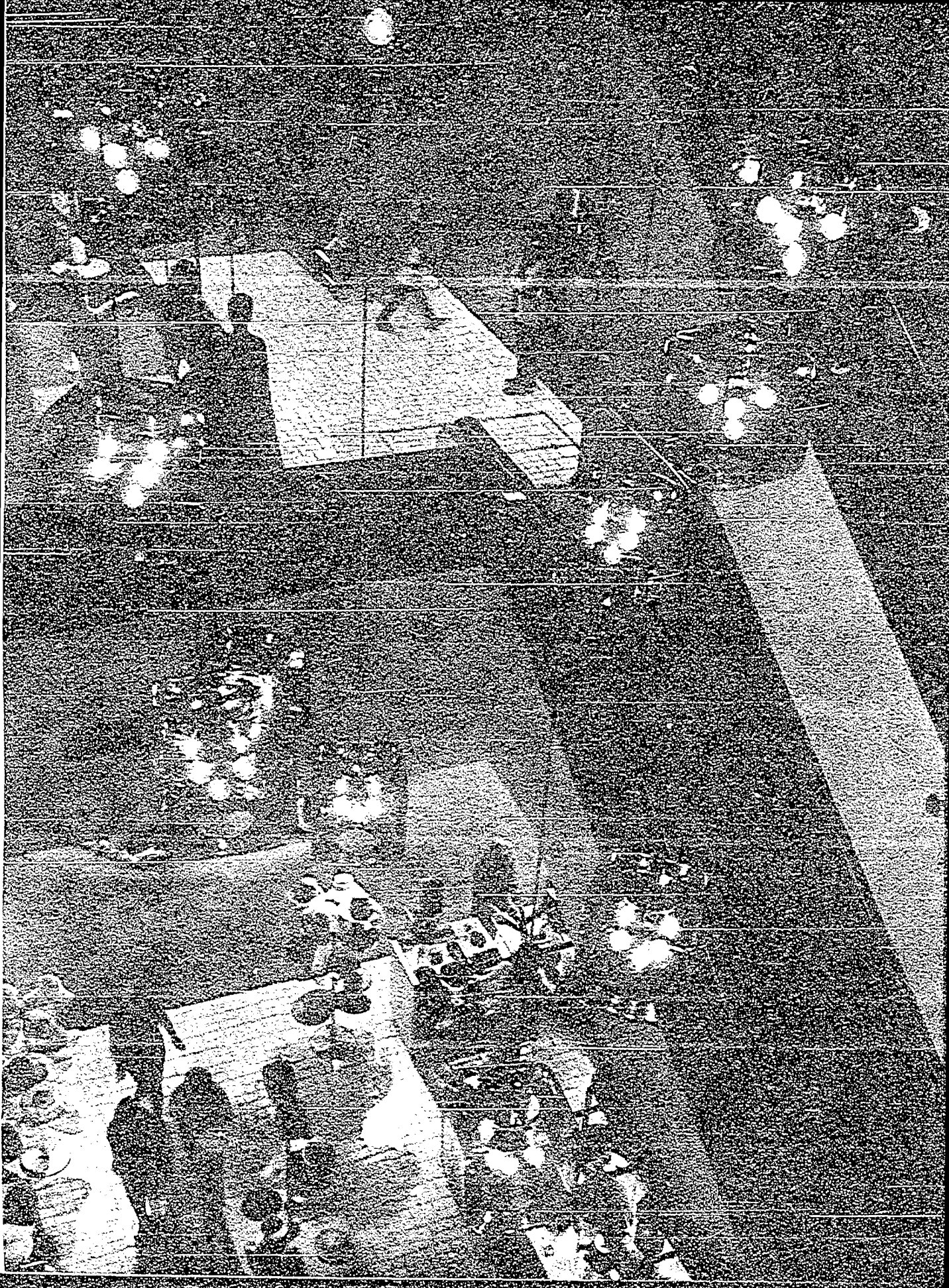
(4) Based on number of shares outstanding at end of year.

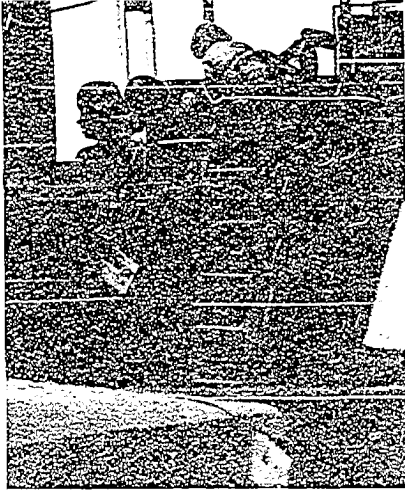
(5) Before deduction of accounts sold.

(6) Amounts by which inventories were lower than they would have been had the last-in, first-out basis not been used.

(7) Based on average of shareholders' equity at beginning and end of year.

1972	1971	1970	1969	1968	1967(1)	1966(1)	1965(1)	1964(1)
\$2,665,148	\$2,353,095	\$2,091,515	\$1,992,669	\$1,813,771	\$1,680,747	\$1,560,663	\$1,481,058	\$1,401,642
219,033	192,424	160,829	177,291	169,169	162,170	149,684	141,638	134,038
8.2%	8.2%	7.7%	8.9%	9.3%	9.6%	9.6%	9.6%	9.6%
110,450	96,218	78,660	91,349	88,899	78,916	73,043	68,186	66,839
108,573	96,206	82,169	85,942	80,270	83,254	76,641	73,452	67,259
4.1%	4.1%	3.9%	4.3%	4.4%	5.0%	4.9%	5.0%	4.8%
45,997	43,790	43,547	42,430	40,203	35,965	35,423	32,840	31,015
62,576	52,416	38,622	43,512	40,067	47,289	41,218	40,612	36,244
116,062	94,100	93,562	102,575	56,918	60,223	55,101	44,133	35,269
40,023	34,915	30,443	26,990	24,723	22,392	20,452	19,103	18,493
52,901	45,451	41,386	38,414	34,018	31,000	28,208	26,457	24,516
\$ 2.46	\$ 2.20	\$ 1.89	\$ 1.98	\$ 1.85	\$ 1.92	\$ 1.77	\$ 1.69	\$ 1.55
1.04	1.00	1.00	.97½	.92½	.85	.83¾	.77½	.72½
18.67	17.18	15.89	15.03	14.08	13.21	12.13	11.24	10.35
\$ 37,692	\$ 434,608	\$ 403,176	\$ 386,374	\$ 345,902	\$ 309,848	\$ 304,373	\$ 283,650	\$ 263,679
309,818	276,469	235,746	240,047	210,419	194,783	181,216	161,433	150,106
48,608	45,487	43,839	38,345	31,795	24,216	19,997	17,523	16,805
419,568	415,692	395,829	357,103	375,405	362,642	342,972	336,751	297,159
561,754	488,518	436,725	387,050	328,831	303,900	274,934	244,979	224,025
117,623	113,937	112,065	69,531	70,793	72,317	75,657	82,026	62,432
826,376	755,452	692,474	653,319	612,026	573,512	525,981	487,140	448,665
13.7%	13.3%	12.2%	13.6%	13.5%	15.1%	15.1%	15.7%	15.5%
117	110	107	102	97	98	91	87	84
25,592	24,461	23,459	22,595	21,078	20,528	19,369	18,203	17,300
44,214	43,755	43,548	43,500	43,461	43,392	43,376	43,399	43,446





Individuality Makes the Difference...

Every Federated store has an individual personality of its own. This is consistent with its tradition, the trading area in which it is located, its customers and its employees.

Many of the stores have been in their communities for more than a century and because of this individuality, their names—names like Bloomingdale's, Filene's, Goldsmith's, Lazarus, Shillito's, Sanger-Harris—continue to be household words.

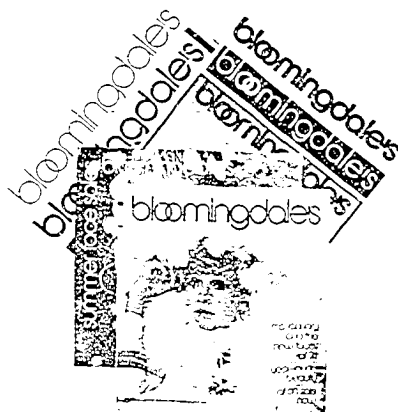
The following pages depict the individual personality of the Federated stores as, North, South, East and West, they progressed through a record expansion year.





It's the woman's touch that counts, naturally, for this Bloomingdale Man, being "fitted" in the new men's department. The type of men who shop at Bloomingdale's fit life-style themes, from the conservative board room men to the European cut and fit, to the young innovators of Saturday's generation. Change happened on every floor in Bloomingdale's when the time was right—changes like Mainland China merchandise and nostalgic retrospectives in young women's apparel.

Bloomingdale's opened its fourth home furnishings specialty store, this one in Chestnut Hill, Mass. The stores feature specially created and developed furniture, rugs, lamps and gifts, as well as such household basics as sheets, curtains and housewares.



Bloomingdale's extended its catalogue business beyond the New York area in 1973. The ten Bloomingdale catalogues published in 1973 had a combined circulation of 15,800,000. Bloomingdale publications in 1974 will venture into the area of men's wear and women's apparel.

Filene's continued the rebuilding of its downtown store, below, in 1973. In addition to providing its fashion goods with a more attractive home, it also enlarged the famous basement store. Filene's also built and is maintaining for the city of Boston a small park adjacent to the store.



Abraham & Straus Established 1865

Sanford J. Zimmerman, Chairman
Edward Goodman, President

*Brooklyn, N.Y. (1,593)
Garden City, N.Y., 1950 (80)
Hempstead, N.Y., 1952 (560)
Babylon, N.Y., 1957 (257)
Huntington, N.Y., 1962, 1974 expansion (308)
Manhasset, N.Y., 1965 (265)
Smith Haven, N.Y., 1969 (236)
Woodridge, N.J., 1971 (285)
Reno Park, N.Y., 1973 (306)
Paramus, N.J., Spring 1974 (300)

Bloomingdale's Established 1872

Lawrence Lachman, Chairman
Marvin S. Traub, President

*Manhattan, N.Y. (947)
New Rochelle, N.Y., 1947 (110)
Fresh Meadows, N.Y., 1949, 1974 expansion (149)
Stamford, Conn., 1954 (227)
Bergen County, N.J., 1959 (240)
Short Hills, N.J., 1967 (250)
Garden City, N.Y., 1972 (260)
Home Furnishings Specialty Stores:
Manhasset, N.Y., 1971 (84)
Scarsdale, N.Y., 1971 (26)
Jenkintown, Pa., 1972 (110)
Chestnut Hill, Mass., 1973 (85)

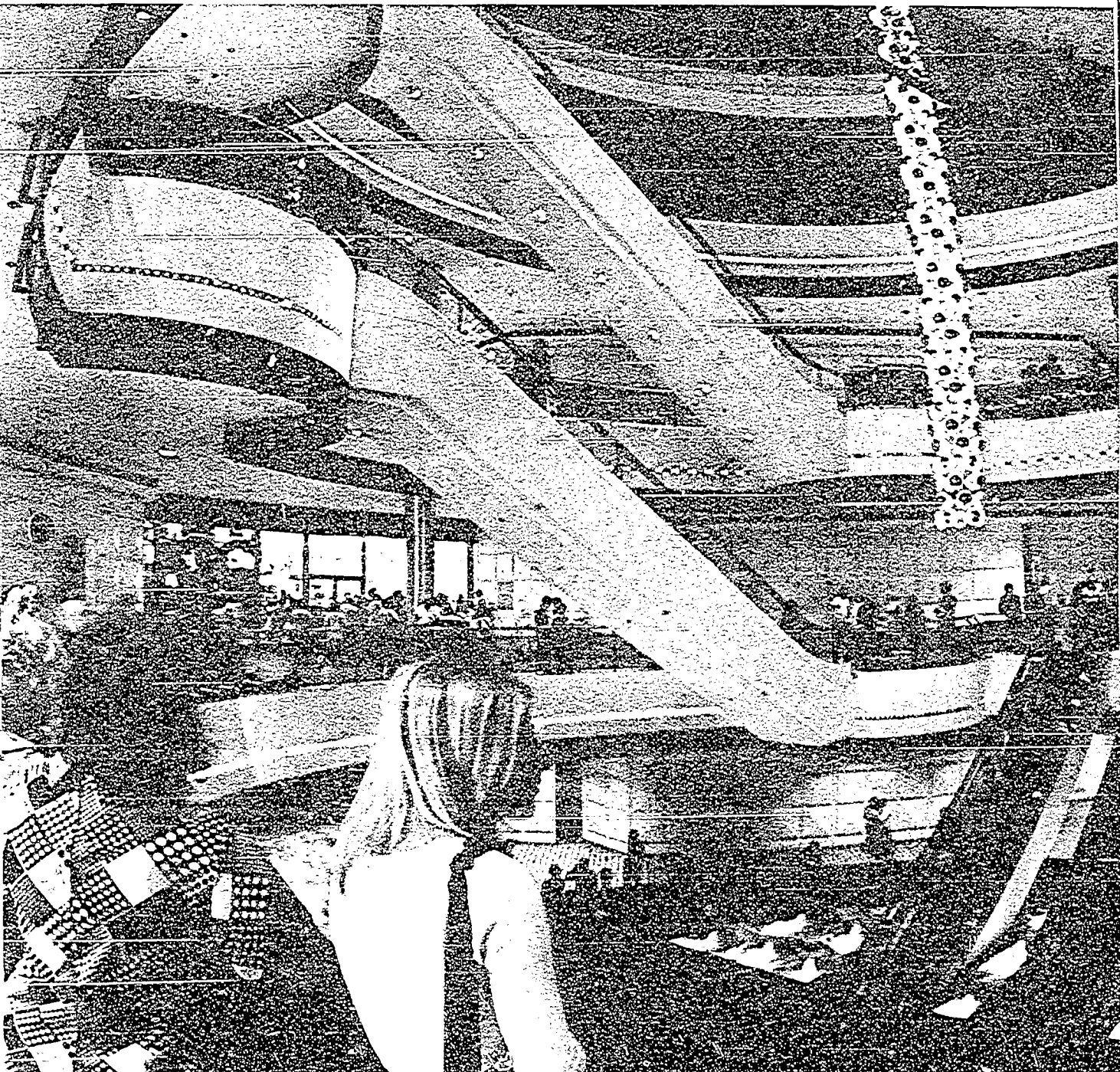
Filene's Established 1852

Weston P. Figgins, Chairman
Joseph E. Brooks, President

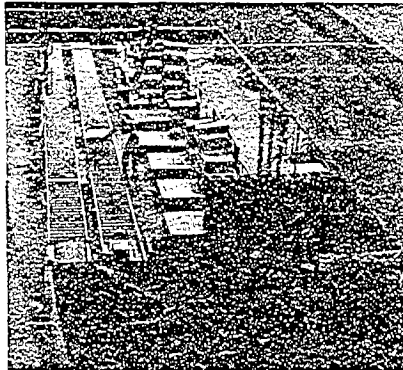
*Boston, Mass., 1973 reconstruction (656)
Wellesley, Mass., 1924 (37)
Belmont, Mass., 1941 (47)
Chestnut Hill, Mass., 1950, 1974 replacement (135)
North Shore, Peabody, Mass., 1957 (114)
South Shore, Braintree, Mass., 1961 (126)
Natick, Mass., 1965 (110)
Burlington, Mass., 1968 (119)
Hyannis, Mass., 1970 (43)
Warwick, Providence, R.I., 1970 (119)
Worcester, Mass., 1971 (106)
Chestnut Hill, Mass., Spring 1974 (140)



The Abraham & Straus new store in Queens is in a futuristic enclosed mall, below, that includes a parking garage and space for many smaller specialty stores. The entire vertical shopping center is built on five acres on Queens Boulevard and reflects the newest shopping center trend—the return to urban areas. More than 50,000 people jammed the store on opening day, left.



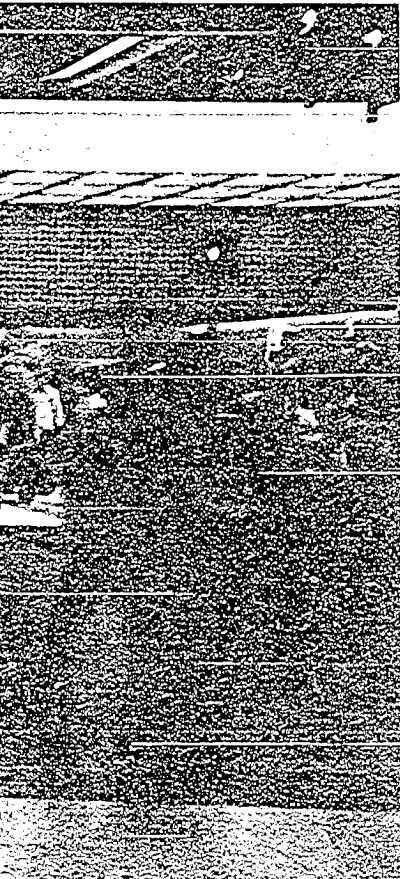
Lazarus expanded into Indiana in 1973, when it opened a store in Indianapolis, below. A second fashion store in Indianapolis will be opened in 1974. The Indianapolis store combines a separate home store with a store for fashion soft goods and smallwares. The 286-foot mall entrance sparkles with a mosaic of tiny tiles. There are separate entrances to the men's, women's and junior shops. The home store has its own entrance from the parking lot. Lazarus also continued its expansion of specialty stores. It opened its first prototype Capri Store, a small budget fashion store, in the Town and Country Shopping Center in Columbus.



Shillito's new distribution center, left, is one of the most modern in the country. It handles the receipt, checking and marking and delivery to Shillito's seven stores of all merchandise except large bulk hardgoods. Merchandise is routed throughout the 210,000 square foot facility by means of mechanized tow-lines and roller and trolley conveyors. The hanging merchandise targeted for each store is mechanically programmed and automatically follows its individual overhead route to a predetermined staging area, identified by store location, prior to loading in a truck for delivery.



Rike's is one of the few stores in the country that has a full-time consumer ombudsman. The ombudsman meets regularly with consumer groups. In this meeting, left, a consumer group strongly urged the expansion of Rike's Salem store. The group's suggestion was corroborated by a research study. As a result, the Salem store will be expanded over the next two years.



Boston Store Established 1906

Edward E. Watson, Chairman
Orren J. Bradley, President

*Milwaukee, Wis. (516)
Bay Shore, Glendale, Wis., 1958 (141)
Boston Village, Milwaukee, 1962 (89)
Brookfield, Wis., 1967 (179)
Southridge, Greendale, Wis., 1969 (179)
Northridge, Milwaukee, 1972 (128)

Lazarus Established 1851

Charles Y. Lazarus, Chairman
William P. Giovannello, President

*Columbus, Ohio (1,283)
Westland, Columbus, 1962, 1974 expansion (213)
Northland, Columbus, 1964 (271)
Eastland, Columbus, 1967 (195)
Richland, Mansfield, Ohio, 1969 (176)
Kingsdale, Upper Arlington, Ohio 1970 (85)
Lima, Ohio, 1971 (166)
Home Store East, Columbus, 1972 (73)
Capri Shop, Columbus, 1973 (34)
Castleton, Indianapolis, Ind., 1973 (312)
Lafayette, Indianapolis, Ind., Spring 1974 (137)

Shillito's Established 1830

Fred Lazarus, III, Chairman
Edward H. Selonick, President

*Cincinnati, Ohio (850)
Tri-County, Cincinnati, 1960 (227)
Western Woods, Cincinnati, 1963 (178)
Kenwood Mall, Cincinnati, 1966 (207)
Beechmont Mall, Cincinnati, 1969 (114)
Oxmcor Center, Louisville, Ky., 1970 (188)
Fayette Mall, Lexington, Ky., 1971 (185)

Rike's Established 1853

Douglas M. Thomsen, Chairman

*Dayton, Ohio (921)
Kettering, Ohio, 1961 (131)
Salem, Dayton, 1963 (128)
Dayton Mall, Dayton, 1969 (191)
Springfield, Ohio, 1971 (156)

Gold Circle Established 1967

Hal W. Field, Chairman
Martin B. Clark, President
East, Columbus, Ohio, 1968 (118)
North, Columbus, 1966 (118)
Northwest, Columbus, 1969 (125)

East, Dayton, Ohio, 1969 (124)

Northwest, Dayton, 1969 (120)

Southeast, Dayton, 1969 (127)

West, Columbus, 1970 (135)

Elyria, Ohio, 1971 (103)

Middleburg Heights, Cleveland, Ohio, 1971 (103)

West, Cleveland, 1971 (134)

Willoughby Hills, Cleveland, 1971 (134)

East, Cincinnati, Ohio, 1973 (130)

North, Cincinnati, 1973 (130)

North Olmstead, Cleveland, 1973 (103)

West, Cincinnati, 1973 (133)

Mentor, Ohio, 1973 (104)

Springfield, Ohio 1973 (135)

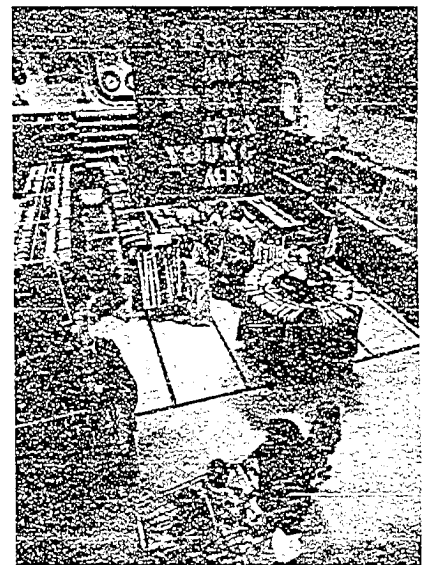
East, Akron, Ohio, Spring 1974 (130)

West, Akron, Spring 1974 (130)

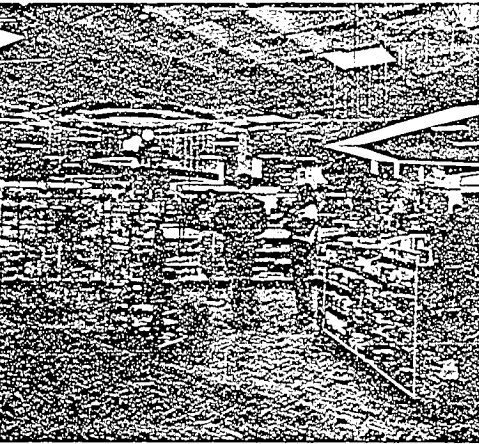
Canton, Ohio, Fall 1974 (130)

Northwest, Cincinnati, Fall 1974 (130)

Bedford, Cleveland, Fall 1974 (130)



Gold Circle's marketing strategy is to intensify its penetration in existing markets and add new ones on a planned basis. In 1973 it added two new stores in Cleveland, intensifying that market, while opening Cincinnati with three new stores, one of which is shown here.



Early in 1974, Foley's opened a new store in Houston with no interior fixed walls, above. The store is 135,000 square feet of colorful and highly flexible theatrical-like settings, below right, connected by one continuous aisle circling the facility. The interior walls defining individual departments are prefabricated and secured in place from the floor or from the ceiling. They are created from fabric, natural woods and plexiglas. As described by a reporter on opening day: "A walk through the store leaves one struck by the enormous quantity of goods offered. Part of the feeling is caused by an effective visual impact whereby a department has two levels of walls for merchandise instead of one".

Sanger-Harris Established 1857

Alan B. Gilman, Chairman

John D. Miller, President

★Dallas, Texas (460)

Highland Park, Dallas, 1949 (33)

Oak Cliff Harris Center, Dallas, 1955 (112)

Preston Center, Dallas, 1957 (212)

Big Town, Dallas, 1959 (113)

Plymouth Park, Irving, Texas 1963 (139)

Six Flags Mall, Arlington, Texas, 1970 (164)

Town East, Dallas, 1972 (168)

Valley View, Dallas, 1973 (200)

Foley's Established 1900

Milton S. Berman, Chairman

Stewart Orton, President

★Houston, Texas (801)

Sharpstown, Houston, 1961 (321)

Pasadena, Houston, 1962 (127)

Almeda Mall, Houston, 1966 (210)

Northwest Mall, Houston, 1967 (313)

Home Furnishings Store, Houston, 1972 (65)

Memorial, Houston, Spring 1974 (135)

Levy's Established 1903

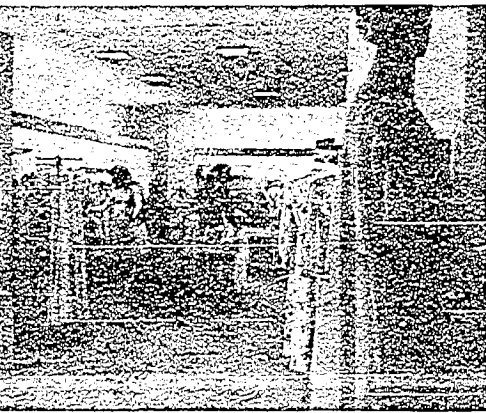
Henry Quinto, President

★Tucson, Arizona (227)





The new Sanger-Harris store in the Valley View section of Dallas chose the theme "imagination" in its approach to life-style merchandising. The variety of settings throughout the store combine traditional and innovative merchandising presentations so that customers relate to the merchandise that is immediately in front of them. Sanger-Harris highlights more than 100 authentic room settings in its home furnishings area. This one is obviously attractive to this weary band of shoppers. Even the rug is comfortable.



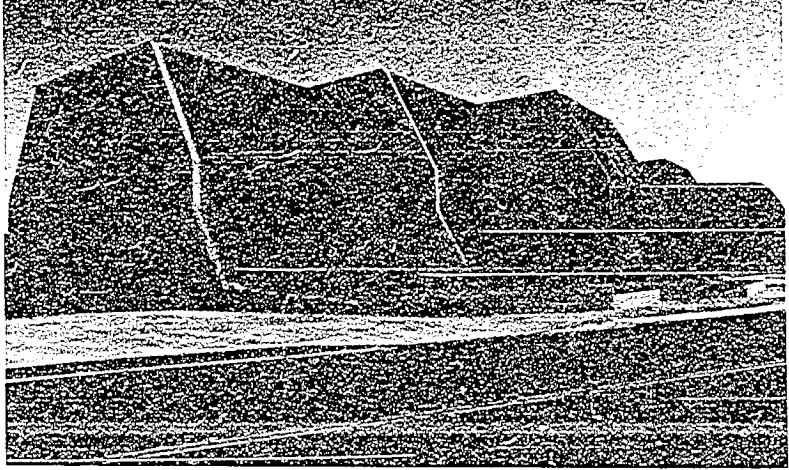
The twenty-two I. Magnin stores, located in such major marketing areas as San Francisco, Los Angeles, Chicago, Seattle, Portland and Phoenix, have a famous fashion heritage that goes back to 1876. During 1973, two of the stores, like the one above in Walnut Creek, California, were expanded and contemporized to keep pace with the changing life-styles of the communities in which they are located.



Bullock's opened its third Bullock's Wilshire specialty store, right, in Woodland Hills in 1973. The grand central court ceiling has a chandelier effect with suspended glass crystal panels, incandescent lights, mirrored ceiling and walls. The cosmetic department has walls of imported Italian marble in classic cremo veined in beige and grey tones.

Bullock's Northern California, which entered the Bay Area market a year ago, added its second store in 1973, in Walnut Creek, California. See photograph on page 12.

You sense and see the individuality inside Federated stores. This individuality is also evident in the various stores' exteriors. They are designed with an individual character related to the community they serve. Bullock's new South Coast Plaza store, right, features sloping walls of Cor-Ten steel that will weather naturally into a dark, velvety red-brown patina. The exterior is relieved by light colored brick, trimming the entrances and covering selected walls. Inside, the three-level store features the use of natural materials, such as brick, tile and wood; warm, natural colors, textured fabrics and decorative planting.



Ralphs Established 1873
Eugene B. Walsh, Chairman
Byron E. Allumbaugh, President

67 supermarkets in Greater Los Angeles totaling 2,099,000 square feet; five new markets, an additional 191,000 square feet, to open in 1974. Eight supermarkets in Greater San Francisco totaling 228,000 square feet; four new markets, an additional 130,000 square feet, to open in 1974

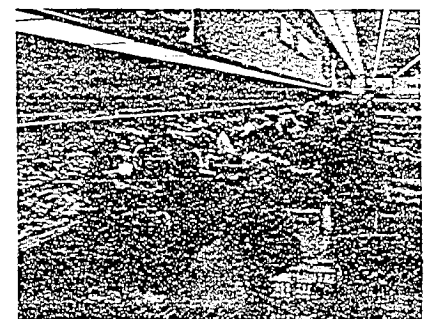
Gold Key Established 1971
Howard Jacower, President
Costa Mesa, Cal., 1972 (167)
San Jose, Cal., 1972 (158)
Van Nuys, Cal., 1973 (159)

Bullock's Established 1906
Howard Goldfeder, Chairman
Herbert R. Bloch, Jr., President
*Los Angeles, Cal. (804)
Pasadena, Los Angeles, 1947 (315)
Westwood, Los Angeles, 1951 (235)
Santa Ana, Los Angeles, 1958 (336)
Sherman Oaks, Cal., 1962 (308)
Lakewood, Los Angeles, 1965 (262)
Del Amo, Torrance, Cal., 1966 (262)
La Habra, Los Angeles, 1968 (272)
Northridge, Cal., 1971 (190)
South Coast Plaza, Costa, Mesa, Cal., 1973 (186)
Specialty Stores:
Wilshire, Los Angeles, 1929 (231)
Palm Springs, Cal., 1930 (47)
Woodland Hills, Los Angeles, 1973 (24)

Bullock's Northern California Established 1971
B. Paul Heidrick, President
Richard Crafts, Executive Vice President
*Stanford, Palo Alto, Cal., 1972 (154)
Walnut Creek, Cal., 1973 (188)

I. Magnin & Co. Established 1876
Ross F. Anderson, Group President
John Schumacher, President
*San Francisco, Cal. (253)
Oakland, Cal., 1931 (65)
Los Angeles, Cal., 1939 (141)
Beverly Hills, Cal., 1945 (99)
Santa Barbara, Cal., 1945 (24)
Pasadena, Cal., 1949 (41)
Sacramento, Cal., 1953 (7)
Seattle, Wash., 1954 (80)

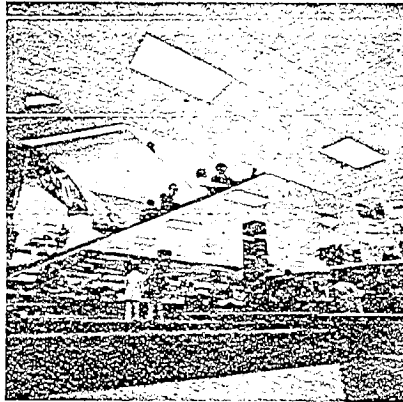
La Jolla, Cal., 1954 (29)
Palo Alto, Cal., 1955 (100)
Fresno, Cal., 1955 (20)
Santa Ana, Cal., 1958 (42)
Carmel, Cal., 1960, 1974 expansion (19)
San Fernando Valley, Sherman Oaks, Cal., 1962 (28)
Portland, Ore., 1962 (32)
Phoenix, Ariz., 1963 (33)
Santa Clara, Cal., 1964 (32)
San Mateo, Cal., 1965 (29)
Del Amo, Torrance, Cal., 1967 (22)
Palm Springs, Cal., 1967 (21)
Walnut Creek, Cal., 1967 (32)
Chicago, Ill., 1971 (138)



Ralphs Grocery Company has opened a new central production and distribution facility in Compton, Calif., that contains a frozen food warehouse, a creamery and deli-kitchen. The frozen food warehouse, top, has 47,000 square feet of storage. The temperature is kept at a constant 10 degrees below zero. The facility services the 67 Ralphs supermarket outlets in Southern California, like the new one above.

Southeast

Burdine's growth pattern focused on central Florida in 1973. It opened a new store in Orlando, 250 miles from Miami. The new store is a complete store of 206,000 square feet. One of the features of the Orlando Store is an area, pictured below, called *The Kitchen*. Burdine's has another store under construction in Altamonte Springs, a northwest suburb of Orlando. Also, Burdine's completed the expansion of its Dadeland store south of Coral Gables. The store now has 400,000 square feet.



Gold Triangle, which in three short years has developed an exciting reputation among its customers for leisure and do-it-yourself merchandise, opened new stores in Tampa and Orlando in 1973. This brings to five the number of Gold Triangle stores built since the business was established in 1970 in Florida.

Goldsmith's of Memphis does business in seven states. It has regular customers who live more than 100 miles away from Memphis. During 1973, Goldsmith's offered these outlying customers one day group bus trips to the store. There were 35 bus trips in 1973; this number is expected to be increased in 1974.

Burdine's Established 1898

Thomas C. Wasmuth, Chairman
Melvin Jacobs, President

*Miami, Fla. (526)

Ft. Lauderdale, Fla., 1947 (195)

Miami Beach, Fla., 1953 (98)

West Palm Beach, Fla., 1954 (161)

163rd Street, Miami, 1956 (256)

Dadeland, Miami, 1962 (401)

Westland, Hialeah, Fla., 1967 (134)

Pompano Beach, Fla., 1969 (152)

Hollywood, Fla., 1970 (151)

Colonial Fashion Square, Orlando, Fla., 1973 (206)

Gold Triangle Established 1968

George C. Summerell, President
Plantation, Fla., 1970 (76)

Skylake, Miami, Fla., 1970 (76)

Dadeland, Miami, Fla., 1970 (76)

Orlando, Fla., 1973 (86)

Tampa, Fla., 1973 (86)

Goldsmith's Established 1870

Raymond H. Cummins, Chairman
Edmond D. Cicala, President

*Memphis, Tenn. (496)

Oak Court, Memphis, 1961 (204)

Southland Mall, Memphis, 1966 (136)

Raleigh Springs, Memphis, 1971 (135)



Consolidated Statement of Income

	52 Weeks Ended February 2, 1974	53 Weeks Ended February 3, 1973
Net Sales, including leased department sales	\$2,962,050,636	\$2,665,147,985
Rental Revenues	<u>4,125,695</u>	<u>4,807,835</u>
	<u>\$2,966,176,331</u>	<u>\$2,669,955,820</u>
Deduct:		
Cost of goods sold and expenses exclusive of items listed below	\$2,551,242,781	\$2,287,353,643
Taxes other than income taxes	61,780,794	52,901,374
Depreciation and amortization	46,928,975	40,023,142
Real estate rent expense (note 11)	25,423,154	23,754,191
Maintenance and repairs	19,913,477	20,193,749
Retirement expense (note 3)	20,209,265	16,565,384
Interest expense—net (note 4)	<u>15,946,237</u>	<u>10,131,292</u>
Total costs (note 9)	<u>\$2,741,444,683</u>	<u>\$2,450,922,775</u>
Income Before Income Taxes	<u>\$ 224,731,648</u>	<u>\$ 219,033,045</u>
Federal, state and local income taxes (note 1):		
Current	\$ 103,389,000	\$ 101,371,000
Deferred	<u>7,611,000</u>	<u>9,089,000</u>
	<u>\$ 111,000,000</u>	<u>\$ 110,460,000</u>
Net Income	<u>\$ 113,731,648</u>	<u>\$ 108,573,045</u>
Earnings per Share of Common Stock (note 10)	\$2.57	\$2.46
Fully Diluted Earnings per Share (note 10)	2.50	2.39

Consolidated Balance Sheet

Assets	February 2, 1974	February 3, 1973
Current Assets:		
Cash	\$ 34,618,142	\$ 42,456,152
Accounts receivable (page 27)	431,944,893	425,702,375
Merchandise inventories (note 1)	336,814,893	309,817,745
Supplies and prepaid expenses	<u>12,971,247</u>	<u>11,459,138</u>
Total Current Assets	\$ 816,349,175	\$ 789,435,410
Other Assets:		
Deferred tax charges (note 1)	\$ 79,963	\$ 4,730,386
Property not used in operations—at cost, less accumulated depreciation	36,321,644	31,152,200
Investment in unconsolidated subsidiaries—at equity (notes 1 and 4)	16,262,744	15,090,722
Miscellaneous	<u>10,206,808</u>	<u>9,438,646</u>
	\$ 62,871,159	\$ 60,411,954
Property and Equipment—net (page 27)	<u>635,285,999</u>	<u>530,601,736</u>
	<u>\$1,514,506,333</u>	<u>\$1,380,449,100</u>



Liabilities and Shareholders' Equity

February 2, 1974

February 3, 1973

Current Liabilities:

Notes payable and long-term debt due within one year	\$ 35,275,752	\$ 20,249,792
Accounts payable and accrued liabilities	294,229,978	242,343,936
Income taxes, current and deferred (note 1)	<u>109,241,297</u>	<u>107,273,520</u>
Total Current Liabilities	\$ 438,747,027	\$ 369,867,248

Deferred Compensation (note 5)	69,902,143	66,582,473
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Long-Term Debt, due after one year (note 6)	116,505,496	117,623,398
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Shareholders' Equity—44,230,745 and 44,272,471 common shares outstanding (page 26)	<u>889,351,667</u> <u>\$1,514,506,333</u>	<u>826,375,981</u> <u>\$1,380,449,100</u>
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Shareholders' Equity

	February 2, 1974	February 3, 1973
Shareholders' Equity:		
Preferred stock, no par value, authorized 5,000,000 shares, none issued	\$ —	\$ —
Common stock, par value \$1.25 per share, authorized 60,000,000 shares, issued 46,239,426 shares (1,381,299 reserved—notes 6, 7 and 8)	57,799,282	57,799,282
Capital in excess of par value of common stock	114,287,309	113,650,326
Accumulated earnings employed in the business	765,265,935	699,320,123
	<u>\$937,352,526</u>	<u>\$870,769,731</u>
Less 2,008,681 and 1,966,955 shares of treasury stock, at cost	48,000,859	44,393,750
	<u><u>\$889,351,667</u></u>	<u><u>\$826,375,981</u></u>

Par Value of Common Stock and Capital in Excess of Par Value of Common Stock:	Common Stock Issued		Capital in Excess of Par Value of Common Stock	
	52 Weeks Ended February 2, 1974	53 Weeks Ended February 3, 1973	52 Weeks Ended February 2, 1974	53 Weeks Ended February 3, 1973
	Shares	Par Value	Par Value	
Balance, beginning of year	46,239,426	\$57,799,282	\$57,546,595	\$113,650,326
Issued:				
Upon exercise of options	—	—	184,281	—
For acquisition of Lo-Ray's Center, Inc.	—	—	68,406	—
Credit from treasury stock issued under deferred compensation plan, stock option plans, restricted stock purchase plan and for conversion of debentures	—	—	—	636,983
Balance, end of year	<u>46,239,426</u>	<u>\$57,799,282</u>	<u>\$57,799,282</u>	<u>\$114,287,309</u>
				<u>\$113,650,326</u>

	52 Weeks Ended February 2, 1974	53 Weeks Ended February 3, 1973
Accumulated Earnings Employed in the Business:		
Balance, beginning of year	\$699,320,123	\$636,000,762
Lo-Ray's Center, Inc. (acquired in pooling of interests)	—	743,789
Net income	113,731,648	108,573,045
	<u>\$813,051,771</u>	<u>\$745,317,596</u>
Cash dividends—\$1.08 and \$1.04 per share	47,785,836	45,997,473
Balance, end of year	<u><u>\$765,265,935</u></u>	<u><u>\$699,320,123</u></u>

	52 Weeks Ended February 2, 1974	53 Weeks Ended February 3, 1973
Treasury Stock:		
Balance, beginning of year	1,966,955	\$44,393,750
Additions	187,930	8,334,746
	<u>2,154,885</u>	<u>\$52,728,496</u>
Deductions for deferred compensation plan (67,794 shares), for stock option plans (44,180 shares), for restricted stock purchase plan (30,965 shares) and for debentures converted to common stock (3,265 shares)	146,204	4,727,637
Balance, end of year	<u><u>2,008,681</u></u>	<u><u>\$48,000,859</u></u>
		<u>\$44,393,750</u>

Accounts Receivable

February 2, 1974

February 3, 1973

Due from customers:

Thirty-day accounts	\$112,769,404	\$108,949,454
Deferred payment accounts	395,071,531	352,405,497
Other accounts receivable	25,864,990	19,291,706
	<u>\$533,705,925</u>	<u>\$480,646,657</u>

Less:

Allowance for doubtful accounts	\$ 11,474,022	\$ 10,399,276
Deferred service charges	2,649,510	2,555,006
Accounts sold to finance subsidiary, less Company's equity therein of \$4,612,500 and \$2,210,000 (note 4)	87,637,500	41,990,000
	<u>\$101,761,032</u>	<u>\$ 54,944,282</u>
	<u>\$431,944,893</u>	<u>\$425,702,375</u>

Property and Equipment

Cost Accumulated
Depreciation and
Amortization Net

February 2, 1974:

Land	\$ 67,077,056	\$ —	\$ 67,077,056
Buildings, substantially all on owned land	322,068,269	73,643,535	248,424,734
Buildings on leased land, improvements to leased properties and leaseholds	179,009,503	53,877,687	125,131,816
Store fixtures and equipment	299,385,121	104,732,728	194,652,393
	<u>\$867,539,949</u>	<u>\$232,253,950</u>	<u>\$635,285,999</u>

February 3, 1973:

Land	\$ 66,301,892	\$ —	\$ 66,301,892
Buildings, substantially all on owned land	267,367,191	63,436,568	203,930,623
Buildings on leased land, improvements to leased properties and leaseholds	150,741,366	47,948,591	102,792,775
Store fixtures and equipment	248,516,959	90,940,513	157,576,446
	<u>\$732,927,408</u>	<u>\$202,325,672</u>	<u>\$530,601,736</u>

Consolidated Statement of Changes in Financial Position



	52 Weeks Ended February 2, 1974	53 Weeks Ended February 3, 1973
Source of Funds:		
Net income	\$113,731,648	\$108,573,045
Depreciation and amortization	46,928,975	40,023,142
Other items not requiring outlay of funds	11,327,661	12,374,715
Total funds provided from operations	\$171,988,284	\$160,970,902
Increase in long-term debt	151,633	50,686,427
Common stock issued for employee plans and debenture conversions	4,127,567	12,964,479
Disposition of property and equipment	8,094,998	3,566,813
(Increase) Decrease in working capital	41,966,014	(3,876,110)
	<u>\$226,328,496</u>	<u>\$224,312,511</u>
Application of Funds:		
Dividends	\$ 47,785,836	\$ 45,997,473
Purchase of property and equipment	164,944,546	116,062,318
Decrease in long-term debt	1,269,535	46,999,888
Increase in investment in unconsolidated subsidiaries	1,172,022	13,637,928
Other—net	11,156,557	1,614,904
	<u>\$226,328,496</u>	<u>\$224,312,511</u>
Increase (Decrease) in Components of Working Capital:		
Cash	\$ (7,838,010)	\$ (9,275,179)
Accounts receivable	6,242,518	(2,507,250)
Merchandise inventories	26,997,148	33,348,284
Supplies and prepaid expenses	1,512,109	2,830,670
Increase in current assets	<u>\$ 26,913,765</u>	<u>\$ 24,396,525</u>
Notes payable and long-term debt due within one year.	\$ 15,025,960	\$ (26,401,641)
Accounts payable and accrued liabilities	51,886,042	38,535,791
Income taxes, current and deferred	1,967,777	8,386,265
Increase in current liabilities	<u>\$ 68,879,779</u>	<u>\$ 20,520,415</u>
Increase (Decrease) in working capital	<u>\$ (41,966,014)</u>	<u>\$ 3,876,110</u>

Notes to Consolidated Financial Statements



1. Summary of Significant Accounting Policies. All subsidiaries are consolidated except Federated Acceptance Corporation, a wholly-owned finance subsidiary (see note 4), and Federated Stores Realty, Inc., a wholly-owned (non-material) real estate subsidiary created in 1973.

Merchandise inventories are substantially all valued by the retail method and stated on the LIFO (last-in, first-out) basis which is lower than market. At February 2, 1974 and February 3, 1973, they were \$66,693,000 and \$48,608,000 lower than they would have been had the retail method been used without the application of the LIFO basis.

Depreciation and amortization are provided on a straight-line basis for book purposes over the shorter of estimated asset lives or lease terms.

State and local income taxes previously included in "Cost of goods sold and expenses" are now included in "Federal, state and local income taxes." The financial statements for the year ended February 3, 1973 have been reclassified to conform to current classifications. The provision for income taxes includes \$15,926,000 and \$15,460,000 of state and local taxes (substantially all current) for the years ended February 2, 1974 and February 3, 1973.

Deferred income taxes are provided on non-permanent differences between reported and taxable income. Deferred tax charges result principally from deferred compensation less deferred tax liability from accelerated depreciation. Income tax liability includes deferred taxes of \$63,197,000 at February 2, 1974 and \$60,236,000 at February 3, 1973 from deferment of gross margin on installment sales. Total investment tax credits (\$4,278,000 for the year ended February 2, 1974 and \$3,236,000 for the preceding year) are used to reduce federal income tax expense in each year.

2. Effect of Inflation. Inflation in the cost of goods sold reduced net earnings by \$8,315,000 in 1973 and \$1,452,000 in 1972. These amounts were calculated from the increase in the appropriate Bureau of Labor Statistics index used in determining the value of the year-end LIFO inventory.

3. Retirement Expense consists of contributions to the Retirement Income and Thrift Incentive Plan and three plans assumed in acquisitions, all of which are deferred payment profit sharing plans qualified under Internal Revenue Service regulations, plus contributions to certain

union pension funds and direct payments made to some retired employees. No employee can actively participate in more than one plan.

4. Federated Acceptance Corporation purchases accounts receivable of Federated Department Stores, Inc. withholding five percent of the receivable balances as a reserve against collection. Federated Acceptance Corporation had pre-tax income of \$2,250,833 for the year ended February 2, 1974 (\$72,938 for the previous year) which amounts have been applied as a reduction of consolidated interest expense.

Following is a comparative balance sheet of Federated Acceptance Corporation:

	<u>February 2, 1974</u>	<u>February 3, 1973</u>
Assets		
Customer receivables of \$92,250,000 and \$44,200,000 purchased from Federated Department Stores, Inc. less 5% withheld pending collection	\$87,637,500	\$41,990,000
Cash	128,049	113,025
Other assets	197,805	31,990
	<u>\$87,963,354</u>	<u>\$42,135,015</u>
Liabilities and Equity		
Short-term notes payable	\$70,500,000	\$27,000,000
Federal income taxes	1,044,400	—
Accrued liabilities and deferred income	157,799	44,293
Equity of Federated Department Stores, Inc.	16,261,155	15,090,722
	<u>\$87,963,354</u>	<u>\$42,135,015</u>

5. Deferred Compensation represents principally cash and stock distributable after retirement or termination under the Company's Executives Deferred Compensation Plan in which eligible executives may elect to defer a portion of their compensation each year. The Company maintains shares in the treasury to cover the number it estimates will be needed for distribution of stock credits currently outstanding.

6. Long-term Debt:

	<u>February 2, 1974</u>	<u>February 3, 1973</u>
Sinking fund debentures due 1995, 8½%	\$ 50,000,000	\$ 50,000,000
Sinking fund debentures due 2002, 7½%	50,000,000	50,000,000
Convertible debentures due 1985, 4½%	13,452,000	13,586,000
Other, average about 6%	3,053,496	4,037,398
	<u>\$116,505,496</u>	<u>\$117,623,398</u>

In the next five years, maturities vary in annual amounts from \$400,000 to \$5,000,000. Thereafter, to the year 2002, maturities vary from \$2,500,000 to \$6,400,000 annually. The convertible debentures are convertible into 328,097 shares of common stock at \$41 per share.

7. Stock Option transactions under the 1971 plan, which provides for grants of either qualified or non-qualified options at not less than 100% of market, and under prior plans (which have been terminated except for shares already granted), were as follows:

	52 Weeks Ended February 2, 1974		53 Weeks Ended February 3, 1973	
	Shares	Grant Price	Shares	Grant Price
Outstanding, beginning of year	306,075	\$27-58	399,150	\$22-47
Granted at 100% of market	134,000	45-47	116,000	56-58
Expired or cancelled	(154,045)	37-58	(35,750)	34-37
Exercised	(44,180)	27-37	(173,325)	22-37
Outstanding, end of year	<u>241,850</u>	45-58	<u>306,075</u>	27-58
Exercisable, end of year	29,925	45-58	185,688	27-47
Available for additional grants	259,000			

No grants were made under the plan approved by the shareholders in May, 1973 which authorizes the granting of either qualified or non-qualified options at not less than 100% of market for an additional 500,000 shares.

8. Restricted Stock Purchase Plan grants were issued during the year ended February 2, 1974 for 40,950 shares at 50% of market and 41,950 shares were exercised or cancelled, leaving no shares outstanding at the year-end. Of the 200,000 shares originally approved by the shareholders in 1969, 52,352 shares were available for future grants at February 2, 1974.

The Board of Directors has adopted, subject to shareholders' approval in May, 1974, a new plan which authorizes grants for an additional 250,000 shares.

9. Total Costs are classified in the Annual Report to the Securities and Exchange Commission as follows:

	52 Weeks Ended February 2, 1974	53 Weeks Ended February 3, 1973
Cost of sales, including occupancy and buying costs	\$2,198,761,345	\$1,950,171,765
Selling, publicity, delivery and administrative expenses	516,166,374	481,103,247
Provision for possible future losses on receivables	10,570,727	9,516,471
Interest expense—net	<u>15,946,237</u>	<u>10,131,292</u>
	<u>\$2,741,444,683</u>	<u>\$2,450,922,775</u>

10. Earnings per Share of Common Stock are based on average shares outstanding of 44,248,890 and 44,213,964 for the years ended February 2, 1974 and February 3, 1973. Any dilution from the potential issuance of shares under the deferred compensation plan, the restricted stock purchase plan and the stock option plans would be less than 3%. Fully diluted earnings per share take into account the above items plus the shares issuable upon conversion of debentures.

11. Rent Expense consists of:

	52 Weeks Ended <u>February 2, 1974</u>	53 Weeks Ended <u>February 3, 1973</u>	
Real estate rent expense (principally from non- capitalized financing leases):			
Base Rent	\$23,358,226	\$21,675,484	
Computed as per- centages of sales . .	<u>2,064,928</u>	<u>2,078,707</u>	
Total	<u>\$25,423,154</u>	<u>\$23,754,191</u>	
Personal property rent expense (included in "Cost of goods sold and expenses")	\$ 7,268,541	\$ 5,833,086	
Income from sub-leases (included in "Rental revenues")	\$ 1,766,537	\$ 2,018,649	
	<i>Gross</i> <i>Commit-</i> <i>ments</i>	<i>Deduct</i> <i>Commit-</i> <i>ments</i> <i>Under</i> <i>Sub-Leases</i>	<i>Net</i> <i>Commitments</i>
Minimum rental com- mitments under non- cancellable leases as of February 2, 1974			
Years ending January:			
1975	\$21,872,000	\$1,237,000	\$20,635,000
1976	21,145,000	1,096,000	20,049,000
1977	19,805,000	963,000	18,842,000
1978	18,902,000	859,000	18,043,000
1979	17,676,000	716,000	16,960,000
Five years ending January:			
1984	77,530,000	1,990,000	75,540,000
1989	58,215,000	764,000	57,451,000
1994	35,272,000	129,000	35,143,000
Subsequent to January 1994 . . .	51,393,000	—	51,393,000

Most leases require the Company to pay taxes (recorded as taxes) and other expenses, some call for additional amounts based on percentages of sales and some contain purchase options.

At February 2, 1974 the present value of minimum rental commitments under non-capitalized financing leases

(excluding taxes and other expenses assumed by lessors) was \$163,400,000 for real estate and \$800,000 for personal property. The weighted average interest rate used in these computations was 5.5%. The present value of non-cancellable sub-leases at February 2, 1974 was \$5,600,000.

If non-capitalized financing leases had been capitalized, net income would have been reduced \$610,000 for the year ended February 2, 1974 and \$583,000 for the prior year, which amounts are not material.

12. Major Commitments for the purchase or construction of facilities at February 2, 1974 amounted to approximately \$85,000,000.

13. Contingencies. A number of so-called "class actions" have been instituted in several states against major retailers, including the Company, predicated on alleged excessive credit service charges. In the opinion of management, recoveries from the Company thereunder, if any, will not have a material effect on its financial position or operations.

Accountants' Report

Touche Ross & Co.

1633 Broadway
New York, New York 10019

Board of Directors and Shareholders,
Federated Department Stores, Inc.

We have examined the consolidated balance sheet of Federated Department Stores, Inc. and subsidiaries as of February 2, 1974 and February 3, 1973 and the related statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Federated Department Stores, Inc. and subsidiaries at February 2, 1974 and February 3, 1973 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

April 9, 1974

Touche Ross & Co.
Certified Public Accountants

10-K Report. A copy of the company's 10-K Report as filed with the Securities & Exchange Commission is available upon request to the Manager of Investor Relations.

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Alfred M. Gruenther † <i>General U.S.A. (Retired) Former President American Red Cross</i>	Herbert S. Landsman* <i>Executive Vice President</i>	Peter G. Peterson <i>Chairman, Lehman Brothers, Inc</i>	†Members, Audit Committee **Members, Executive Committee

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Transfer Agents

Manufacturers Hanover Trust Company <i>Four New York Plaza New York, N.Y. 10015</i>	Security Pacific National Bank <i>124 West Fourth Street Los Angeles, Calif. 90013</i>
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Registrars

Bankers Trust Company <i>16 Wall Street New York, N.Y. 10015</i>	Crocker National Bank <i>611 West Sixth Street Los Angeles, Calif. 90017</i>
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